

**Congress of the United States**  
**Washington, DC 20515**

October 31, 2005

The Honorable John W. Snow  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Snow,

As the public debate begins to take shape, we are writing to express our views on tax reform. Although President Bush's Advisory Panel on Federal Tax Reform will not submit its final report until tomorrow, many of its recommendations have already been made public. We are concerned that if these recommendations are enacted, the panel's plan will do little to ease the code's complexity, and negatively impact millions of working Americans.

We are eager to work with the Administration to make the code simpler and fairer for the middle class and small businesses. To achieve real tax reform, however, the President and Republican Congress must not use this opportunity as a Trojan horse to continue shifting the tax burden from wealth to work. President Bush must exercise sincere bipartisan leadership on this issue. For example, he must recognize that asking for his tax cuts to be made permanent - with all of the attendant complexities and inequalities - does not make the tax code simpler and fairer.

We noted your comments in today's *Wall Street Journal* that Treasury would like to introduce a set of proposals by the end of the year "that will have the capacity to enjoy broad public support and ultimately ... the Congress of the United States."

As you weigh the panel's recommendations, we would like to give you the opportunity to hear our ideas for real tax reform. We believe tax reform should adhere to the following principles:

First, while President Bush has stated his view that tax reform should be revenue-neutral, Democrats' core principle is that tax reform must not increase taxes on the middle class. As you know, new IRS data shows that the effective income tax rates paid by the wealthiest Americans - the top tenth of 1 percent of taxpayers - declined by more than 10 times the rate reduction for middle-class taxpayers in 2003. Tax reform should narrow rather than exacerbate these inequities.

Second, reform must simplify a tax code that has ballooned by 10,000 pages since 2001. This added complexity is directly tied to new burdens on the middle class, both in increased costs for tax preparers and in the tax filing process. In fact, the amount of time it takes the typical American family to complete its tax return has increased by the equivalent of a whole workday since Republicans took control of Congress in 1994.

Third, reform must make the code fairer. The tax code is a nightmare for middle-class Americans but a treasure trove of loopholes and tax shelters for those with the means and desire to exploit them. This has created a culture of cheating and a tax gap of more than \$300 billion,

leaving middle-class families to pick up the slack for those who refuse to obey the law. Ordinary Americans recognize this and are losing faith in the fundamental fairness of the system.

Finally, tax reform must not increase the deficit and should allow the federal government to operate with a balanced budget. President Bush and Congressional Republicans have implemented "borrow and spend" budget policies that have created record deficits for the last three years. Our national debt recently reached \$8 trillion, nearly \$27,000 for every man, woman and child in our nation.

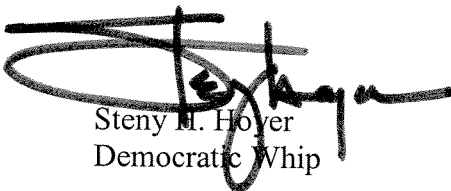
The preliminary news reports suggest that the panel's recommendations largely fail to meet the above-referenced principles. For example, the panel proposes to pay for AMT repeal for all taxpayers – not just the middle class - by reducing or eliminating tax credits and deductions related to mortgage-interest, health-insurance, and state and local taxes. With millions of middle-class families already discovering the AMT has taken back the savings promised from the recent tax cuts, fundamental fairness dictates that they should not bear the burden of repeal.

Additionally, the panel's proposal to repeal the Federal deduction for state and local taxes will fall disproportionately on families who happen to live in western and northeastern states. Moreover, dramatic reductions in tax incentives for home ownership, business interest deductions, and employer-provided health care seem counter-intuitive to the values of a nation that wants to encourage homeownership, investment, and expanded health care coverage.


Democrats have recommended ideas on how to simplify the tax laws governing retirement savings and college education – the complexity of which prevents many middle-class families from taking advantage of them. We suggest that tax reform include ideas with broad bipartisan appeal such as an Expanded College Access Credit that replaces five education tax incentives with a single \$3,000-a-year credit to students, and a Universal Pension replacing the "alphabet soup" of existing IRA-type accounts with a portable retirement account for all workers.

We believe it is time to seize the opportunity for fundamental tax reform. We stand ready to work with the Administration and our colleagues in Congress to pass real tax reform that simplifies the code and makes it fairer for all Americans.

Sincerely,



Steny M. Hoyer  
Democratic Whip



Rahm Emanuel  
Member of Congress